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# 1<sup>ST</sup> QUARTERLY REPORT

## CAMBODIA MSME PROJECT

Implemented by Development Alternatives, Inc.

USAID Contract No. GEG-I-00-02-00014-00, Order 02

OCTOBER-DECEMBER 2005

This publication was produced for review by the United States Agency for International Development. It was prepared by Development Alternatives, Inc.



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The authors' views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.



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## **ABBREVIATIONS**

BDS	Business Development Services
CEDAC	Centre d'Etude et de Development Agricole Cambodgien
CIDS	Cambodian Institute for Development Studies
CRS	Catholic Relief Services
DAI	Development Alternatives, Inc.
GTZ	German Technical Cooperation
ILO	International Labor Organization
M&E	Monitoring and Evaluation
MSME	Micro, Small and Medium Enterprise
OGD	Office of General Development, USAID/Cambodia
PACT	PADCO/Pact Cambodia Program
PADEK	Partnership for Development in Kampuchea
PfD	Partners for Development
SME	Small and Medium Enterprise
SNV	Netherlands Development Organisation
USAID	United States Agency for International Development
VC	Value Chain
VCA	Value Chain Assessment



## FOREWORD

Pursuant to the requirements of the Cambodia Strengthening Micro, Small and Medium Enterprises Contract No.GEG-I-00-02-00014-00, Order 02, Development Alternatives, Inc. (DAI) is pleased to submit its first quarterly report, covering October-December 2005. This report tracks activities identified in our draft workplan, documenting progress, achievements, and activities; significant meetings and events; publications; and problems encountered together with problems resolved. It also looks forward to planned activities for the next quarter.

DAI brings over three decades of experience in the international development field to the Cambodia MSME Program. In this project, our organization employs an outstanding technical team of Cambodian and international experts to implement an aggressive strategy of value chain upgrading in four provinces in eastern Cambodia: Kampong Cham, Kratie, Prey Veng and Svay Rieng. The Cambodia MSME Project employs a grassroots strategy aimed at leveraging market forces to help reduce poverty and spur economic growth in these areas, which are among the poorest in Cambodia.

Much of the work carried out in the first quarter of the project involved completing key tasks related to preliminary value chain selection as well as administration and start-up activities. in preparation for the in-depth value chain analysis planned for January. DAI completed its hiring of key administrative and technical staff, and signed rental contracts for provincial offices in Prey Veng and Kampong Cham and a staff guest house in Kampong Cham. The project began operating out of its office in Phnom Penh, although DAI's IT shipment remains in Cambodian customs, causing significant delays with project start up. To gain release of the shipment, DAI signed an MOU with the Ministry of Mines, Industry and Energy and is now working to register the MSME Project with the Cambodian Development Council to obtain a clearance approval letter to send to customs.

Piers Bocock acted as Chief of Party until I began work full-time on November 16. Component 1 Leader Curtis Hundley acted as Chief of Party from December 3-29 while I traveled to the U.S. to complete preparations for my relocation to Cambodia, take part in meetings and trainings at DAI headquarters in Bethesda, Maryland, and meet with key USAID staff in Washington, DC. Piers Bocock acted as Technical Backstop for the project through November and Andrea Chartock took over this role beginning December 1.

DAI is pleased to have the opportunity to implement this exciting new program. By having our main offices in the provinces, rather than in Phnom Penh, we will be able to work at the grassroots level, actively engaging the value chains within which we will be working, and demonstrating our commitment to our stakeholders. DAI looks forward to working with USAID to insure that these goals are achieved for the benefit of the Cambodian people.

Garrett Menning  
Chief of Party  
Cambodia MSME Project  
January 2006



## I. INTRODUCTION

The Cambodia MSME project has been funded by the U.S. Agency for International Development to promote economic growth in four of Cambodia's poorest provinces: Kratie, Kampong Cham, Svay Rieng and Prey Veng. Development Alternatives, Inc. (DAI), the organization contracted to implement the program, is committed to a strategy founded upon identifying key gaps in provincial value chains and then facilitating the services and support necessary to address these problems and create a more conducive enabling environment in which these value chains can effectively compete and grow. The expected results of the project are divided into four components corresponding to IRs in the Mission's Strategic Objective 3 (Improved Political and Economic Governance):

*Component 1: Improved Performance of USAID-Assisted Enterprises in Targeted Value Chains.* DAI is assessing current constraints and opportunities for MSMEs within the chosen sectors so that it can work to upgrade value chain competitiveness by building the knowledge, capacity and skills of firms within selected value chains. These activities are expected to result in increased volume and value of sales among 500 program-assisted MSMEs during the first year. The program targets for the first year are to double the volume and value of sales within the chosen value chains and improve the volume and value of sales of assisted MSMEs by an average of 50% (25% for rural MSMEs).

*Component 2: Enhanced Capacity of Value Chain Firms and Service Providers to Support Value Chain Competitiveness.* After identifying gaps and opportunities in the supply and demand for key non-financial services capable of strengthening the value chain, DAI will work to increase the capacity of providers of both stand-alone and embedded services and link these providers with MSME customers within target value chains. The first year target for the activities for this component is to assist at least 500 MSMEs in selected value chains to obtain needed business services, produce higher-value products, and use new technologies and production techniques. The program also aims to boost the number and value of new investments by MSMEs in products/ product development, marketing efforts, skills upgrading, improved irrigation and/or other equipment, inputs, and/ or transport by at least 75% in the first year.

*Component 3: Improved MSME Access to Finance.* DAI will work to improve the "bankability" of MSMEs and promote financing and new financial products for enterprises within target value chains. Specific activities will include linking MSMEs with appropriate financial institutions, developing potential business models for new financial instruments, and examining the feasibility of using loan guarantees from USAID's Development Credit Authority to leverage MSME financing within selected value chains. DAI is aiming for a 100% increase in the number of MSMEs who are able to get loans and a 100% increase in the number and volume of use of financial products available to MSMEs during the first year.

*Component 4: Improved Business Environment.* DAI will work to build the capacity of MSMEs to engage in local policy advocacy and dialog with government, foster the development of provincial business associations, and make the local business environment more conducive for MSME growth. These activities are expected to produce a 30%

improvement in the advocacy skills of MSMEs, a 30% increase in the number of project-assisted organizations lobbying for improved business environment, a 6% increase in the number of project-assisted business organizations engaging in policy dialog, and a 25% increase in the number of microenterprises growing into SMEs during the first year of the project.

In the first quarter of the Cambodia MSME Project, DAI focused on start-up activities including office set up, staffing and project planning. A key element of strategic planning for DAI focused on work to identify those value chains in the target provinces with the greatest potential for achieving the project targets just described. To this end, DAI's strategy aims for significant positive impact in several key areas: market growth, revenue generation, job creation and increased opportunities for women and other underserved groups. DAI will choose between three and five value chains to work with during the course of the project, and focus on ways of strengthening horizontal and vertical linkages within the chain while simultaneously leveraging synergies that may exist between different value chains.

## **II. FIRST QUARTER ACTIVITIES**

### **A. Preliminary Value Chain Selection**

DAI's first technical challenge was to determine which value chains showed the greatest potential for project assistance in the target provinces. This winnowing process involved a rapid sector selection activity to set the stage for a later, more exhaustive analysis to identify in greater detail the constraints, opportunities and possible project interventions for selected value chains.

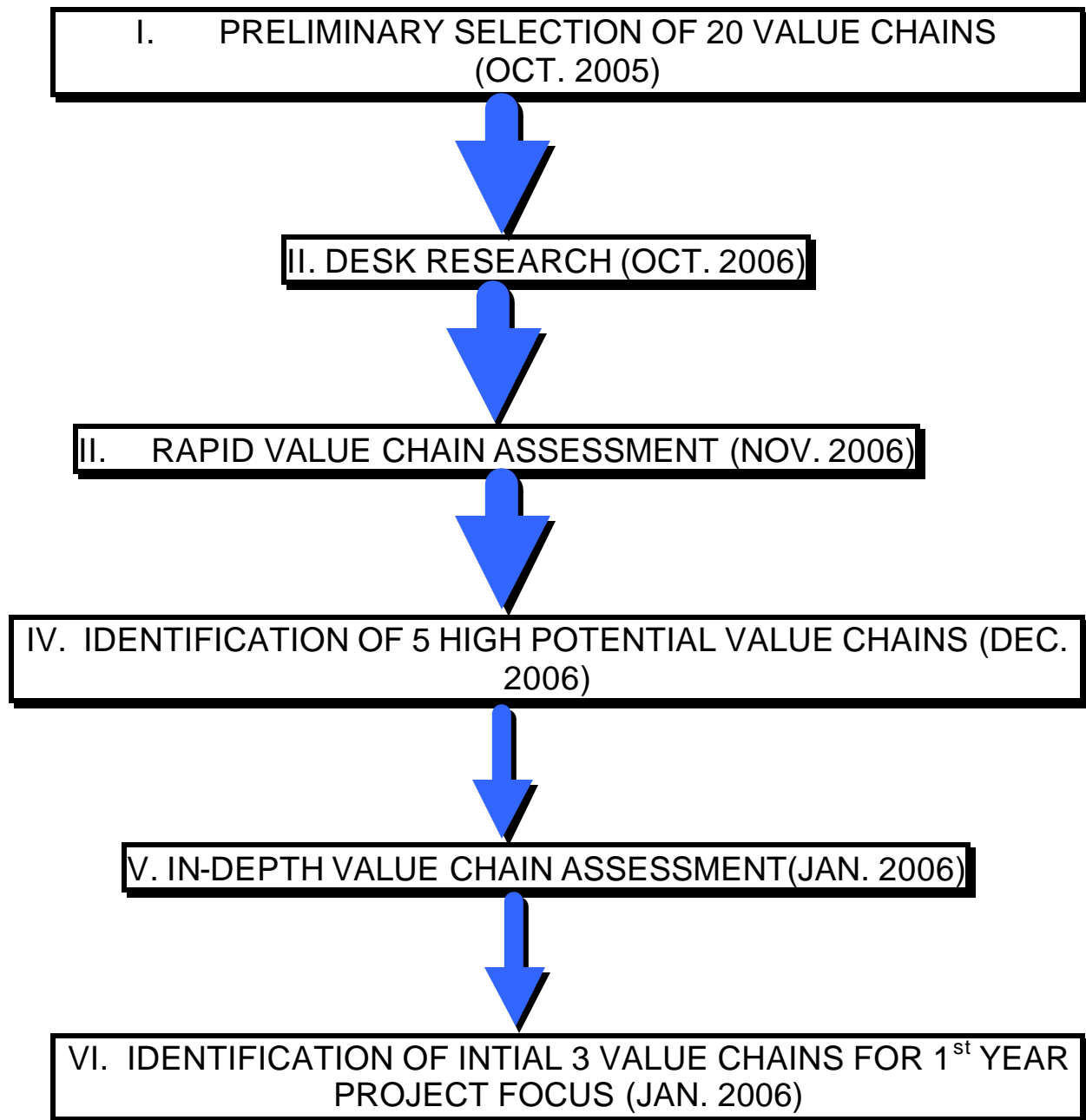
There are three main ideas underpinning the sector selection. The first principle is to balance in-depth analysis against the need to begin implementation as quickly as possible in order to achieve project results within the proposed time frame. The project therefore takes an "action research" approach, combining analysis with intervention in a flexible, dialectic process involving ongoing adjustment, learning and adaptation based on earlier results and continuous shareholder feedback. DAI believes that this approach will allow the project to achieve maximum impact within a limited timeframe.

The second underlying principle is to maintain flexibility by remaining open to new market opportunities throughout the value chain selection to take advantage of opportunities as they present themselves in the course of the assessment process. DAI intends to stick to contractual commitments regarding the minimum number of value chains assisted in year one (three) and over the life of the project (five). However, the project team is open as to whether the timeline should be accelerated (offering assistance to more than three value chains in the first year) or the total amount should be increased if the right opportunities come along.

The third main concept underpinning the sector selection is balance. Whereas DAI will not rule out the possibility of adding more sectors, there would definitely be a cost in terms of the kind of focused assistance we could provide in each sector. Therefore, the assessment team is attempting to choose a number that is large enough to assure the scale of impacts desired without overstretching DAI's capacity.

In the first quarter component leaders worked together closely to coordinate work in the various value chains under consideration during the selection process. DAI's selection strategy is reflected in Table 1 below. The rapid assessment process narrowed down to five the number of value chains in the project's provinces from approximately 20-26 which were pre-identified to have promise. The five most promising sectors identified by the DAI team were bricks, fisheries, agro machinery, swine, and cashews.

**TABLE 1: PROCESS OF VALUE CHAIN SELECTION**





## **B. Component 1 Activities: Improving Performance of Project-Assisted Enterprises in Selected Value Chains**

Starting in late October 2005, two teams of experts spent a week in the provinces, conducting meetings, interviews and focus groups with MSMEs in the 20 value chains identified as having the highest possible potential. Based on information gathered from the field and a quantitative scoring process, a short list of five were identified for more detailed analysis in January 2006: brick and tile, livestock, fisheries, agro machinery, and cashews.

In November and December, technical staff traveled to the four target provinces to set up meetings with governors and interview VCA Coordinator candidates to be hired and activated in January. Staff interviewed 20 regional Cambodian national experts throughout the four provinces who could participate in the in-depth value chain assessments. The team also enlisted discussions with numerous foreign experts within each of the selected value chains to identify additional experts and to solicit their views on the value chains selected and seek their advice on planning the in-depth assessment. DAI technical staff also began collecting existing published documents containing established Cambodian research on the selected value chains. CIDS (the Cambodian Institute for Development Studies) presented its analysis of the most promising interventions to upgrade value chain firms and appropriate methodologies for M & E and Impact Assessment for MSMEs in selected value chains.

**TABLE 2: MATRIX OF ACTIVITIES FOR COMPONENT 1**

INTER-MEDIATE RESULTS	PERFORMANCE INDICATORS	ANNUAL PERFORMANCE TARGET	ACTIVITIES	Oct	Nov	Dec
<b>Improved performance of USAID-assisted enterprises in targeted value chains</b>	1. Volume and value of sales of program-assisted enterprises	50% increase in volume of sales	<b>1.1. Identify value chains that have potential for significant positive impact in market demand, job creation, and revenue generation</b>			
			1.1.1. Conduct rapid assessment of most promising value chains in each of four provinces	X	X	
		50% increase in value of sales	1.1.2. Reduce potential value chains to six initial value chains applicable to the four provinces		X	
			1.1.3. Plan in-depth value chain analysis, including process identification and timetable creation			X
	4. Number of enterprises which have increased sales of program-assisted commodities/products	500 enterprises	1.2.2. Identify and establish relationships with local NGOs, donors, authorities, existing and relevant business and producer networks and associations		X	X

## **C. Component 2 Activities: Enhancing Value Chain Competitiveness**

In the first quarter, DAI worked to establish relationships with key stakeholders in the value chains under consideration for the project. Technical staff attended a GTZ workshop in IT-enabled BDS for SMEs and discussed possibilities for coordination (Kampong Cham is one of the provinces where both GTZ and DAI are working).

Technical staff met with managers and staff of several donors and NGOs working in the target provinces (including CRS, GTZ, SNV, CEDAC and Concern) and discussed issues of common concern and possibilities for coordination in assisting and networking MSMEs in selected VCs.

The COP/component 2 leader traveled to the U.S. in December to meet with key technical and project support staff at DAI headquarters in Bethesda, Maryland. He also visited USAID/Washington to discuss technical issues with Cambodia Desk Officer Deidre Winston, Business Services Advisor Jeanne Downing in the Office of Microenterprise Development, and USAID/Cambodia OGD Director Reed Aeschliman.

Component 2 staff also participated in the meeting with CIDS about M & E and technical staff described in Section B above.

**TABLE 3: MATRIX OF ACTIVITIES FOR COMPONENT 2**

<b>INTER-MEDIATE RESULTS</b>	<b>PERFORMANCE INDICATORS</b>	<b>ANNUAL PERFORMANCE TARGET</b>	<b>ACTIVITIES</b>	<b>Oct</b>	<b>Nov</b>	<b>Dec</b>
<b>Enhanced capacity of value-chain firms and/or stand-alone providers to support competitive value chains</b>	1. Number of MSMEs obtaining commercially provided business services, technical assistance services, and/or after-sales services resulting from program activities	500	<b>2.1. Identify Necessary Services, Current Providers, and Service Gaps</b>			
			2.1.1. Identify and establish relationships with local NGOs, donors, authorities, existing businesses, producer networks and associations		<b>X</b>	<b>X</b>

## **D. Component 3 Activities: Improving MSME Access to Finance**

Work in this Component during November was mainly focused on planning work and identifying staff. Work also began ahead of schedule on developing relationships with key stakeholders in the finance industry and evaluating supply and demand for financial services. The Component Leader attended the ADB Road Show in Kampong Cham to coordinate with ADB, meet local MFIs, and assess MSME use of/demand for finance and reaction to ADB's Simplified Financial Reporting Template (SFRT).

In December the DAI Component 3 leader met with additional NGOs, the National Bank of Cambodia, donor micro-finance institutions, and banks to discuss the findings of the initial assessment of access to finance issues in the program's target provinces. DAI established its program office in Phnom Penh and hired a Cambodian microfinance specialist to assist the component leader in conducting research and establishing relationships with institutions and MSMEs active in the selected value chains in the four provinces.

**TABLE 4: MATRIX OF ACTIVITIES FOR COMPONENT 3**

<b>INTER-MEDIATE RESULTS</b>	<b>PERFORMANCE INDICATORS</b>	<b>ANNUAL PERFORMANCE TARGET</b>	<b>ACTIVITIES</b>	<b>Oct</b>	<b>Nov</b>	<b>Dec</b>
<b>Improved MSME access to finance</b>	1. Number of MSMEs able to obtain new loans	100% increase	<b>3.1. Increase “bankability” of MSMEs in selected value chains</b>			
			3.1.1. Identify and establish relationships with local NGOs, donors, authorities, existing businesses, producer networks and associations			<b>X</b>
			3.1.2. Conduct an assessment on current lending patterns and impediments to lending			<b>X</b>
	2. Number of financial instruments available to different sizes and types of enterprises in selected value chains	100% increase	<b>3.2. Promote financial services for MSMEs in selected value chains</b>			
			3.2.1. Identify practical needs of firms for financial instruments			<b>X</b>
			3.2.5. Coordinate with ongoing ADB SME project and evaluate the relevance of the simplified financial reporting template (SFRT) to MSMEs and FIs			<b>X</b>
	3. Volume of use of financial instruments described above	100% increase	<b>3.3. Facilitate intra value chain financing for MSMEs</b>			
			3.3.1. Coordinate with Components 1, 2, and 4 to ensure availability of appropriate financial services			<b>X</b>

## **E. Component 4 Activities: Improving the Business Environment**

Work in this Component during November and December was focused on planning upcoming project activities, identifying possible staff and negotiating contracting issues with the proposed subcontractor, The Asia Foundation (TAF). Work will also began in developing research methodology for January's research study and discussing these activities with additional possible service providers.

### **III. NEXT STEPS**

During January, the MSME project team will conduct an extensive in-depth value chain assessment on the five value chains we selected in the rapid value chain assessment activities during October and November 2005: fisheries, swine, roof and floor tile, agriculture machinery, and cashews.

The project has begun recruiting members to support five teams with two Cambodian value chain experts on each team. The in-depth value chain assessment will begin January 5, 2006 with a two-day workshop to discuss the fundamental value chain concepts and begin planning for the assessment. The project is encouraging donor coordination throughout the assessment process by encouraging local NGOs to contribute value chain experts to serve on the teams. To date, New Zealand AID's Cambodia Agribusiness Development Facility and the US registered NGO International Development Enterprises have provided individuals to support the assessment.

The project is also engaging in discussions with NGOs working in the four provinces, such as ILO, PfD, CRS, CEDAC, PADEK, GTZ, SME Cambodia, PACT, and others, to identify their complementary activities and establish working relationships early on in the project. Finally, the project is enlisting the support of private sector firms in the information gathering stage to ensure the assessment and resulting proposed solutions and interventions are linked with market requirements that reflect the long term interests of Cambodian businesses. Building strong relationships and understandings with other donors, NGOs, and—most importantly—private sector firms will help to ensure sustainability and produce solutions that are more likely to be practical and market based.